

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK**

IN RE YUNJI INC., SECURITIES
LITIGATION

)
) Case No. 1:19-cv-6403-LDH-SMG
)
) CLASS ACTION
)
) CONSOLIDATED AMENDED
) COMPLAINT FOR VIOLATION OF
) THE FEDERAL SECURITIES LAWS
)
) DEMAND FOR JURY TRIAL
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)

Lead Plaintiff Shaji Mathew (“Plaintiff”), by and through his undersigned counsel, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, the investigation made by and through Plaintiff’s attorneys, which includes without limitation: (a) review and analysis of regulatory filings made by Yunji, Inc. (“Yunji”) with the United States Securities and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports issued and disseminated by Yunji; and (c) review of other publicly available information, including analyst reports, concerning Yunji. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE CLAIMS

1. Plaintiff brings this federal securities class action on behalf of a class consisting of all persons who purchased and/or otherwise acquired Yunji ordinary shares of stock in the form of American Depositary Shares (“ADSs”) pursuant or traceable to the Registration Statement filed in connection with Yunji’s initial public offering (“IPO”) on May 3, 2019.

2. In this action, Plaintiff asserts claims under Sections 11 and 15 of the Securities Act of 1933, 15 U.S.C. §§ 77k and 77o, (the “Securities Act”) against Yunji, certain current and former officers and directors of Yunji, and Yunji’s underwriters in the IPO.

3. On May 3, 2019, Yunji completed its IPO by selling its ordinary shares in the form of 11,217,447 ADSs to investors at \$11.00 per ADS that were registered and offered pursuant to a registration statement on Form F-1 filed with the SEC on March 21, 2019 with the amendments made thereto (“Form F-1”), a registration statement on Form F-6 filed with the SEC on April 22, 2019 (“Form F-6”), a registration statement on Form 8-A filed with the SEC on April 22, 2019 (“Form 8-A”), and a final prospectus filed with the SEC on Form 424 on May 3, 2019 (the “Prospectus”). Collectively the Form F-1, Form F-6, Form 8-A, and the Prospectus shall be referred to as the “Registration Statement”).

4. The Registration Statement, however, contained untrue statements of material fact and/or omitted to state a material fact required to be stated therein pursuant to the regulations governing its preparation or necessary to make the statements therein not misleading.

5. First, the Registration Statement provided a materially misleading description of Yunji’s business. The Registration Statement disclosed that Yunji’s historical business and sales were based upon and were expected to be that of a first-party relationship model (“1P”) whereby Yunji would purchase or acquire goods from its suppliers to sell directly to consumers through Yunji’s platform. The Registration Statement, however, omitted material information concerning the third-party relationship model (“3P”) marketplace that Yunji launched and was promoting during the first quarter 2019 and prior to the IPO whereby Yunji suppliers and other vendors could sell their own products directly to Yunji’s customers (the “Marketplace”). The Registration Statement failed to disclose that the Marketplace and its 3P model had become and was planned

to grow as a material portion of Yunji's business and sales. The Registration Statement further failed to disclose that Yunji had actively promoted the Marketplace during the first quarter 2019 and that sales had and were continuing to shift from its 1P model to the Marketplace's 3P model. Instead, the Registration Statement provided minimal information regarding the launch of the Marketplace which omitted material information. Pursuant to Item 101 of Regulation S-K, 17 C.F.R. § 229.101, the Registration Statement was required to describe the material aspects of Yunji's business at the time of the IPO and moving forward. By omitting material facts that Yunji was under a duty to disclose as well as required to make its description of Yunji's business not materially misleading, the Registration Statement violated Item 101 of Regulation S-K and Section 7(a)(1) of the Securities Act, 15 U.S.C. § 77g(a)(1).

6. Second, the Registration Statement omitted to discuss the material ongoing trend of Yunji's sales shifting from its 1P model to the Marketplace including the actual and expected effects on Yunji's revenue. As a result of Yunji promoting the Marketplace during the first quarter 2019 and the resulting shift in sales during the first quarter of 2019, Yunji's revenue had already suffered a material decline from the fourth quarter 2018. This shift in sales to the Marketplace was reasonably expected to cause material declines in future quarters and, in fact, did cause, material declines in Yunji's revenue in the second and third quarters 2019. As later stated by Yunji and its executives, Yunji's declining revenue was a result of shifting sales from the 1P to the 3P model because Yunji recognized revenue for sales on the Marketplace on a net basis as compared a gross basis for the 1P model. As a result, the Registration Statement failed to identify and disclose known trends, events, demands, commitments and uncertainties that had or were reasonably likely to have a material effect on Yunji's operating performance as required by Item 303 of Regulation S-K, 17 C.F.R. § 229.303, and Section 7(a)(1) of the Securities Act.

7. Third, the Registration Statement contained untrue statements and/or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading concerning Yunji's products. In the Registration Statement, Yunji stated that it procured and offered "high-quality" and "carefully curated" products from its suppliers. These statements were untrue and/or misleading as evidenced by Yunji's chief financial officer's statement that during the second quarter 2019 (the quarter in which Yunji held its IPO) Yunji cut 300 of its 1P merchandise suppliers, or roughly 22% of its 1,369 suppliers identified in the Registration Statement, because these suppliers' products did not meet Yunji's "standard" for "quality" and "user satisfaction."

8. Pursuant to the Registration Statement, Plaintiff and other Class members purchased Yunji's ordinary shares in the form of ADSs. Since its IPO, Yunji's ADSs have declined in price from \$11.00 per ADS to \$4.37 per ADS on November 12, 2019.

9. To recover the losses he sustained, Plaintiff asserts strict liability claims under Sections 11 and 15 of the Securities Act against Yunji and certain current and former officers and directors of Yunji who signed the signed the Registration Statement, and the underwriters in the IPO.

JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant to Sections 11 and 15 of the Securities Act.

11. This Court has jurisdiction over the subject matter of this action pursuant to Section 22 of the Securities Act, 15 U.S.C. §77v, and 28 U.S.C. §1331.

12. Venue is proper in this District pursuant to Section 22 of the Securities Act and 28 U.S.C. §1391(b) because certain of the acts alleged herein, including the dissemination of materially false and/or misleading information, occurred in this District.

13. In connection with the acts, conduct and other wrongs alleged in this Complaint, Defendants, directly and/or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

I. The Lead Plaintiff

14. Lead Plaintiff Shaji Mathew purchased Yunji securities pursuant or traceable to the Registration Statement. Lead Plaintiff's certification evidencing his transactions in Yunji securities at issue in this action was previously filed with the Court in connection with his motion for appointment as lead plaintiff and is incorporated herein by reference (ECF No. 13-1).

II. The Yunji Defendants

15. Yunji is Cayman Islands corporation with its principal executive offices located at 15/F, South Building, Hipark Phase 2, Xiaoshan District Hangzhou 310000, Zhejiang Province, People's Republic of China. Yunji is social e-commerce platform that sells its products to customers through its Yunji platform and third-parties' products via Yunji's Marketplace. Yunji's ADSs are listed on the Nasdaq Global Market under the ticker symbol "YJ."

16. Shanglue Xiao ("Xiao") is Yunji's founder, chairman of Yunji's board of directors ("Board"), chief executive officer, and controlling shareholder. Xiao signed or authorized the signing of Yunji's Form F-1, Form F-6, and Form 8-A.

17. Defendant Chen Chen ("Chen") has served as Yunji's chief financial officer ("CFO") since May 2018. Chen signed or authorized the signing of Yunji's Form F-1 and Form F-6.

18. Defendant Huan Hao (“Hao”) has served as Yunji’s chief technology officer since its inception and as a director on the Board since February 2018. Hao signed or authorized the signing of Yunji’s Form F-1 and Form F-6.

19. Defendant Qingrong Kong (“Kong”) has served as a director on the Board since February 2018. Kong signed or authorized the signing of Yunji’s Form F-1 and Form F-6.

20. Defendant Yanhua Sun (“Sun”) has served as a director on the Board since February 2018. Sun signed or authorized the signing of Yunji’s Form F-1 and Form F-6.

21. Defendant Wei Ying (“Ying”) has served as a director on the Board since February 2018. Ying signed or authorized the signing of Yunji’s Form F-1 and Form F-6.

22. Defendant Donald J. Puglisi (“Puglisi”) is a managing director of Yunji and its duly authorized representative in the United States. Puglisi signed or authorized the signing of Yunji’s Form F-1 and Form F-6.

23. Xiao, Chen, Hao, Kong, Sun, Ying, and Puglisi are collectively referred to as the “Individual Defendants.”

III. The Underwriter Defendants

24. Morgan Stanley & Co. LLC (“Morgan Stanley”) is located at 585 Broadway, New York, New York 10036. Morgan Stanley acted as an underwriter in the IPO. Morgan Stanley was obligated to purchase 4,730,000 ADSs from Yunji to sell to investors as part of the IPO.

25. Credit Suisse Securities (USA) LLC (“Credit Suisse”) is located at Eleven Madison Avenue, New York, New York 10010. Credit Suisse acted as an underwriter in the IPO. Credit Suisse was obligated to purchase 3,712,500 ADSs from Yunji to sell to investors as part of the IPO.

26. J.P. Morgan Securities LLC (“J.P. Morgan”) is located at 383 Madison Avenue, New York, New York 10179. J.P. Morgan acted as an underwriter in the IPO. J.P. Morgan was obligated to purchase 1,320,000 ADSs from Yunji to sell to investors as part of the IPO.

27. China International Capital Corporation Hong Kong Securities Limited (“CCC”) is located at 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. CCC acted as an underwriter in the IPO. CCC was obligated to purchase 990,000 ADSs from Yunji to sell to investors as part of the IPO.

28. Top Capital Partners Limited, doing business as Tiger Brokers, (“Top Capital”) acted as an underwriter in the IPO. Top Capital was obligated to purchase 247,500 ADSs from Yunji to sell to investors as part of the IPO.

29. Defendants Morgan Stanley, Credit Suisse, J.P. Morgan, CCC, and Top Capital are hereinafter collectively referred to as the “Underwriter Defendants.”

30. In conjunction with the IPO, the Underwriter Defendants (excepting Top Capital) entered into the “Underwriter Agreement” with Yunji. Pursuant to the Underwriter Agreement, Yunji would issue and sell to the Underwriter Defendants Yunji Class A ordinary shares in the form of ADSs. In turn the Underwriter Defendants would take delivery of the Class A ordinary shares in the form of ADSs to sell to investors. The Underwriting Agreement stated “that the Underwriters propose to make a public offering of their respective portions of the Offered ADSs as soon after the Registration Statement and this Agreement have become effective as in the Representatives’ judgment is advisable.”

31. In accordance with the Underwriter Agreement, the Underwriter Defendants offered and sold to investors Yunji ADSs. In exchange for their efforts, they received underwriting discounts and commissions from Yunji in the amount of \$0.77 per ADS.

32. Yunji, the Individual Defendants, and the Underwriter Defendants are hereinafter collectively referred to as the “Defendants.”

SUBSTANTIVE ALLEGATIONS

I. BACKGROUND ALLEGATIONS

A. Yunji’s IPO

33. On March 21, 2019, Yunji filed its Form F-1 to register 155,250,000 Yunji Class A ordinary shares, par value US\$0.000005 per share in order to offer and sell ADSs to investors in the IPO. These Class A ordinary shares would be deposited with Deutsche Bank Trust Company Americas (“Deutsche Bank”) to hold and underlie the ADSs. Thereafter, Yunji filed four amendments to the Form F-1 with the last amendment being filed on April 30, 2019. The Form F-1 was signed by each of the Individual Defendants. The Form F-1 and the Prospectus that were filed as part of the IPO contained untrue statements or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

34. On April 22, 2019, Yunji filed its Form F-6 for the registration of 400,000,000 ADSs. Each ADS represents 10 Yunji Class A ordinary shares registered on the Form F-1 and deposited with Deutsche Bank. Yunji was eligible to use form F-6 because the deposited Class A ordinary shares were registered under the Securities Act pursuant to the Form F-1.

35. The Form F-6 further provides that the Form F-1 and Form 8-A (which registered Yunji’s ordinary shares and the ADSs under Section 12(b) of the Securities Exchange Act of 1934) filed as part of the IPO are integral to the effectiveness of the Form F-6 by stating that “[f]ollowing the effectiveness of the registration statement on Form F-1 (File No. 333-230424) and the registration statement on Form 8-A covering the American Depositary Shares representing Class A ordinary shares of Yunji Inc. (the “Company”), the Company will be subject to the periodic reporting requirements of the United States Securities Exchange Act of 1934, as amended, and,

accordingly, will file certain reports with, and will furnish certain reports to, the Commission.” As such, the Form F-6 was dependent upon the effectiveness of the Form F-1 which formed the basis of the Form F-6. Each of the Individual Defendants signed the Form F-6 in addition to the Form F-1.

36. Between April 22, 2019 and April 30, 2019, 2,726 copies of Yunji’s preliminary prospectus dated April 22, 2019 were distributed to underwriters, institutional investors, dealers, and others.

37. On April 30, 2019, Yunji requested that the SEC declare the effectiveness of the Form F-1 at 4:00 p.m. on May 2, 2019. At the requested date and time, the SEC declared the Form F-1 and dependent Form F-6 effective.

38. On May 3, 2019, Yunji filed the Prospectus. The Prospectus, which was incorporated into and part of the Form F-1, offered for sale the 11,000,000 ADSs registered by the Form F-6 and represented 110,000,000 Class A ordinary shares at \$11.00 per ADS. The Prospectus further provided that an additional 1,650,000 ADSs were made available to the Underwriter Defendants, at their option, to satisfy any over-allotment in the IPO. The Registration Statement and Prospectus each provided that an ADS holder could withdraw from the depositary at any time the ten Yunji Class A ordinary shares that each ADS represents.

39. On May 3, 2019, Yunji completed its IPO by selling 11,000,000 ADSs with the Underwriter Defendants exercising their over-allotment option to purchase and sell an additional 217,447 ADSs. Of the total 11,217,447 ADSs sold in the IPO, 6.4 million of these were subscribed for and allocated by the Underwriter Defendants to Yunji’s existing shareholders, Crescent Point and Trustbridge Partners and/or their affiliates.

40. As a result of the IPO, Yunji received net proceeds of \$108.97 million.

41. Following the completion of the IPO, Yunji, its directors, executive officers, and existing shareholders were obligated to not sell any Yunji ADSs or ordinary shares for a period of 180 days after May 3, 2019 pursuant to the lock-up agreement entered into by each of these individuals and entities prior to the completion of the IPO.

42. Upon the IPO, Yunji's ADSs began to trade on the Nasdaq Global Market under the trading symbol "YJ."

43. On November 12, 2019, the date of the filing of first-securities class action complaint that commenced this consolidated action, Yunji ADSs closed at \$4.37 per ADS.

B. The Registration Statement's Description of Yunji

44. Yunji commenced its operations in May 2015. Yunji employs a social e-commerce platform whereby it relies heavily upon its customers and members to prompt other prospective and existing members and users to purchase Yunji's "high-quality products" that were "carefully curated" and offered at "attractive prices" directly from Yunji.

45. The Yunji app is the primary mechanism Yunji relies upon to sell its merchandise to members and users. The app shows members and users what others are purchasing and what members are sharing. In the app, Yunji members are encouraged to provide product descriptions, reviews, and photos and videos about the goods they have purchased. Yunji's members are also prompted to share information on the products they have purchased by sending invitations and recommendations to their social-media contacts. If a member's social-media contact purchases the item, a member receives the advertised incentive on the product, such as Yunbi or Yun-coin, that can be used by the referring member on future purchases.

46. Accordingly, Yunji's platform and app are designed to promote Yunji's social e-commerce model which seeks to drive Yunji's sales and membership growth as a result of its members' efforts of marketing goods to their social media contacts.

C. The Registration Statement's Description of Yunji's Product Offerings and Suppliers

47. The Registration Statement stated that Yunji sells a "balanced mix of products of mainstream brands, emerging brands and private labels on [its] platform" and offers a product range that includes beauty and personal care items, household goods, food and fresh produce, computer and electronics, apparel, bags and cases, baby and maternity products, and home appliances, amongst other items.

48. The Registration Statement detailed that Yunji provides three main sales formats to market products to customers: flash sales (daily sales of selected items); supermarket (online grocery store); and boutique virtual shops (branded items gathered into virtual shops).

49. Yunji's stated that its business relies on "offering carefully curated high-quality products at attractive prices." To do such, Yunji maintains a "carefully curated product selection" to offer on its platform by actively selecting and managing its roster of products and suppliers.

50. To offer Yunji's desired mix of high-quality goods to customers, the Registration Statement disclosed that in 2018 Yunji offered customers on its platform 6,613 standard product units ("SPUs") on an average daily basis. These SPUs were sourced from Yunji's 1,369 third-party suppliers (as of December 31, 2018) and included various suppliers of mainstream and emerging brands, and Yunji's manufacturing partners.

51. To identify customer trends, procure the products it offers for sale, and manage its SPUs and suppliers, Yunji relies upon a product procurement team of over 268 employees (26.5%

of its total employees as of December 31, 2018). Per the Registration Statement, Yunji's procurement team members "utilize unique insights into our users' needs and preferences as they work with our suppliers" and rely upon their "extensive knowledge and understanding of existing and potential users' needs and preferences, and our big data capabilities [to] enable us to better analyze market trends and understand customer behavior." As a result of these and other benefits provided by Yunji to its suppliers, Yunji stated that this "establish[es] strong relationships" which translates into its products being offered at a better price.

52. The Registration Statement stated the importance of Yunji acquiring "high-quality product offerings" through its careful selection of suppliers:

We believe it is crucial for us to carefully select the suppliers with high-quality product offerings, and empower them with our understanding of market trends and insights on customer behavior to better design products meeting customer preferences. We have adopted a set of selection guidelines for identifying potential suppliers. Our key supplier selection criteria include size, reputation, sales records among consumers similar to those in our user community, and product offerings. Once a potential supplier is identified, we conduct due diligence reviews on its qualifications. We generally choose to work with reputable brand owners with good track records and high-quality product offerings. For manufacturing partners producing private labels, we conduct on-site visits and examine candidates based on our selection criteria, including the relevant qualifications and governmental permits. We also conduct detailed factory auditing on the supplier's manufacturing capability and production process to control product quality.

Emphasis added.

53. According to the Registration Statement, once a supplier is vetted, Yunji continues to monitor the products it receives and sells from the supplier for quality control. To accomplish this Yunji: relies on its "dedicated team and stringent quality assurance and control procedures to ensure product quality and prevent counterfeit products"; "carefully scrutinize[s] the products before listing them on [its] platform"; inspects the products for quality issues when they are

delivered to its warehouses, again before shipping to customers; and also “conduct[s] random periodic quality checks on [its] inventory.”

54. Additionally, Yunji continues to monitor its offered products on its platform, by evaluating the performance of each SPU and supplier. As stated in the Registration Statement, Yunji “review[s] and continually monitor[s] the performance of each SPU and supplier, and carefully manage the mix of products [it] offer[s], based on a number of metrics such as the preferences of users, revenue contribution and margin.” Yunji analyzes “in particular revenue contribution and margin, and suspend[s] and replace[s] SPUs with poor performance each month.”

D. The Registration Statement’s Description of Yunji’s Revenue Sources

55. As detailed in the Registration Statement, Yunji earns revenues from three main sources: (i) merchandise sales; (ii) sales of memberships; and (iii) “other revenues.”

56. In 2018, Yunji’s main revenue source was from the sale of merchandise under its 1P model. In 2018, Yunji had \$1.893 billion in total revenue of which 87.5% (RMB11,388,425,000 or \$1,656,378,000) was from merchandise sales, 11.9% (RMB 1,552,437,000 or \$225,793,000) was from the sales of memberships, and 0.6% (RMB74,363,000 or \$10,816,000) was from “other revenues” from third-party sales of tickets, mobile phones, hotel reservations, and insurance on Yunji’s platform.

57. According to the Registration Statement, Yunji’s largest source of revenue is from selling the carefully curated high-quality products from its vetted list of suppliers to customers on its platform. From these merchandise sales, Yunji recognizes revenue on a “gross basis,” meaning that the total price of the sale to the customer is recorded as revenue “net of value-added tax, discounts, coupons, incentives and return allowances.” Yunji recognizes sales of merchandise on

gross basis because it has “control of the goods and has the ability to direct the use of goods to obtain substantially all the benefits.”

58. In addition to revenue, Yunji also reports “gross merchandise value” or “GMV” as a metric for evaluating its performance during a fiscal period. The Registration Statement defines “GMV” as “the total value of all orders paid and shipped for merchandise sold on [Yunji’s] platform, including the value of the merchandise sold as part of the membership packages, as well as the VAT and tax surcharges paid, regardless of whether the merchandises are returned and without taking into consideration any discounts and incentives.” In other words, GMV includes gross revenue plus the value of the merchandise sold as part of the membership packages, VAT and tax surcharges paid, any returns, and any discounts and incentives.

E. The Registration Statement’s Description of Yunji’s Marketplace

59. In the first quarter of 2019 (January 1, 2019 through March 31, 2019, inclusive) and prior to the IPO, Yunji launched as part of its platform the Marketplace whereby third-party merchants could market and sell their goods directly to Yunji’s customers and users.

60. The Registration Statement contained extremely limited information concerning the Marketplace. The Registration Statement disclosed that Yunji: (i) “launched the marketplace business model since the first quarter of 2019, and will continue to work with third-party online payment service providers to support the new initiatives”; (ii) “[b]y leveraging our large user base and power of social networks, we have launched the marketplace business model since the first quarter of 2019, allowing third-party merchants to sell their products on our platform to our members and users”; and (iii) “[t]o complement our existing direct sales business model, we have launched a marketplace business since the first quarter of 2019 whereby third-party merchants can sell products on our platform and pay us commissions on their sales.”

61. The Registration Statement did not discuss or disclose any existing or anticipated revenues, revenue recognition practices, or GMV for the Marketplace.

F. Relevant Statements Concerning Yunji's Revenues, its Marketplace, and its Suppliers After the IPO

i. Yunji Reports its First Quarter 2019 Results

62. On June 4, 2019, just 32 days following the completion of the IPO, Yunji announced its first quarter 2019 financial results for the period ended March 31, 2019 via a press release that was also filed as a Form 6-K with the SEC (the "1Q2019 Press Release"). The first quarter had been completed by over a month at the time of the IPO.

63. In the financial statements presented in the 1Q2019 Press Release, Yunji reported total revenue of RMB3,385,555,000 which was RMB1,080,302,000 less than the RMB4,465,857,000 it reported for the fourth quarter 2018. Yunji also reported revenue from the sales of merchandise of RMB3,220,175,000 which was RMB296,918,000 RMB less than the RMB3,517,156,000 it reported for the fourth quarter 2018. The change in total revenue and revenue from the sales of merchandise equated to a 24.2% and 8.4% decrease, respectively, from the fourth quarter 2018.

64. In the 1Q2019 Press Release, Chen stated that during the first quarter 2019 that "many brands increasingly opted into our marketplace business model, which recognizes revenue on a net basis." This resulted in revenue lagging behind GMV growth so that despite significant year-over-year growth in GMV, revenue declined. Indeed, Xiao attributed the 93.7% year-over-year quarter increase in GMV, in material part, to the "implementation of a new marketplace business model, and innovations to [Yunji's] supply chain network."

65. Specifically, the 1Q2019 Press Release announced:

“Our strong growth in the first quarter of 2019 further validates our business model and demonstrates our successful track record,” said Mr. Shanglue Xiao, Chairman and Chief Executive Officer of Yunji. ***“Our GMV increased by 93.7% year over year during the quarter, mostly driven by the growth of our membership base, implementation of a new marketplace business model, and innovations to our supply chain network.”*** In addition, we enhanced our user value proposition by leveraging our proprietary data and improving our product curation capabilities. All of these efforts should continue to drive future growth. ”

“Our success in expanding the number of in-demand products on our platform was shown by the 53.2% year-over-over increase in revenues as well as improvements to both income from operations and net income. ***Additionally, our GMV growth exceeded our revenue growth as many brands increasingly opted into our marketplace business model, which recognizes revenue on a net basis.*** We also significantly improved our profitability by shifting our product mix towards private label and emerging brand products, both of which have higher margins. Meanwhile, our new marketplace business model has helped to reduce our working capital needs. Moving forward, we will continue to leverage our strong cash position and economies of scale to drive profitability,” said Mr. Chen Chen, Chief Financial Officer of Yunji.

Emphasis added.

66. Later that same day before market open, Yunji held an earnings conference call to discuss its first quarter 2019 results (the “1Q2019 Conference Call”).

67. During the scripted portion of the 1Q2019 Conference Call, Xiao discussed the drivers in the first quarter 2019, including the launch of Yunji’s Marketplace. Specifically, Xiao stated:

Secondly, through big data analysis and a better merchandising mix, we were able to increase our GMV by 93.7% in the first quarter. We continuously analyze a vast quantity of high [priority] data to assess member behavior and preference. In addition, we gathered real-time user feedback to enhance our merchandise mix.

For example, during this process, we discovered that fresh sales alone could not satisfy all aspects of our member demands. ***Consequently, we launched two new sales formats, namely the marketplace model*** and the supermarket sales to significantly enhance our merchandise mix.

Under the marketplace model, we partner with third-party retailers to provide users with a broader range of product selections such as apparel. On the supermarket sales model, we provide users with fast moving and more SKU products such as food to meet their daily needs. ***Both the marketplace and***

supermarkets sales formats have broadened the categories of products available on our platform, which in turn drove our GMV growth.

Emphasis added.

68. Also during the scripted portion of the 1Q2019 Conference Call, Chen discussed Yunji's revenue and GMV during the first quarter 2019, including Yunji's promotion of the Marketplace. Specifically, Chen stated:

Our revenues in the first quarter of 2019 increased by 53.2% year-over-year to RMB3.4 billion. Revenue from the net sales of merchandise accounted for 95.1% of our total revenues and increased by 60.8% to RMB3.2 billion from RMB2 billion in the first quarter of 2018.

During the first quarter of 2019, we promoted our marketplace model, which contributed an increasing portion of our product sales, because the marketplace model recognize the revenue on a [net basis], our GMV growth outpaced our total revenue growth, as we seek to provide our members with more products of greater value at reasonable prices, we may further increase revenue contribution from our marketplace model going forward.

Emphasis added.

69. Following the 1Q2019 Conference Call, J.P. Morgan issued its "Initiation" analyst report with a rating of "Overweight" and a price target at \$14.00 (Dec-19).

70. In its business analysis section of its report, J.P. Morgan described Yunji as having the "following unique features: 1) membership-based model that leverages the power of social interaction; 2) incentivizing members to promote the platform and products with their social contacts; 3) *offering carefully-curated high quality products at attractive prices.*" Emphasis added. J.P. Morgan further noted that Yunji's product mix shift with its "well-curated" items was a "positive driver" of Yunji's business and that this would "drive margin improvement" for Yunji.

71. J.P. Morgan further described the revenue implications for Yunji's traditional merchandise sales through its 1P model versus Yunji's Marketplace's 3P model. As J.P Morgan reported:

Different revenue composition: Another factor restricting the application of P/S for Yunji's valuation is the different revenue composition. *The majority of Yunji's business is 1P model, which owns inventory and recognizes full selling prices and cost of products sold, unlike the marketplace (3P) model, which only books commissions and service fees as revenue.*

Emphasis added in bold and italics.

72. Notably, J.P. Morgan stated that it expected Yunji's total revenue growth to slow as compared to GMV given "more contribution from marketplace." Specifically, J.P. Morgan projected that as a result of suppliers trending to the Marketplace and becoming a larger contributor to GMV that Yunji's Marketplace would negatively and materially impact Yunji's revenue in the future:

Revenue

We forecast Yunji's total revenue to grow slower than GMV due to higher price discount and incentives paid to members, as well as more contribution from marketplace. Growth in 2019/20/21E will be at 51%/46%/38%, slower than 93% in 2018. The revenue mix will change mildly, with 1P revenue percentage edging down to 83% of total by 2021E from 88% in 2018. Membership program revenue as percentage of total will stay at 12%-13%. Marketplace revenue percentage will gradually rise to 3% by 2021E from nothing in 2018, while others will stay at less than 1% of total, based on our estimates.

Emphasis added.

ii. Yunji Reports its Second Quarter 2019 Results

73. On August 22, 2019, Yunji announced its second quarter 2019 financial results for the period ended June 30, 2019 via a press release that was also filed as a Form 6-K with the SEC ("2Q2019 Press Release"). At the time of the filing of the Prospectus on May 3, 2019, Yunji was already over 36% of the way through its second fiscal quarter.

74. In the 2Q2019 Press Release, Yunji announced that GMV during the second quarter increased to RMB8.2B "primarily due to an increase in GMV from the marketplace business, which recognizes revenues on a net basis and contributes to marketplace revenues" but that total

revenues during the quarter declined to RMB 3,064.1 million “primarily due to a decrease in revenues from sales of merchandise, which recognizes revenues on a gross basis, as the Company shifted part of merchandise sales to its marketplace platform, which recognizes revenues on a net basis.” Additionally, the 2Q2019 Press Release discussed changes to Yunji’s suppliers as a result of the Marketplace launch.

75. Specifically, the 2Q2019 Press Release stated:

Yunji Announces Second Quarter 2019 Unaudited Financial Results

Hangzhou, CHINA, August 22, 2019 — Yunji Inc. (“Yunji” or the “Company”) (NASDAQ: YJ), a leading membership-based social e-commerce platform, today announced its unaudited financial results for the second quarter ended June 30, 2019¹.

Second Quarter 2019 Highlights

- *GMV in the second quarter of 2019 increased by 46.4% year over year to RMB8.2 billion (US\$1.2 billion) from RMB5.6 billion in the same period of 2018, primarily due to an increase in GMV from the marketplace business, which recognizes revenues on a net basis and contributes to marketplace revenues. GMV related to the marketplace revenues in the second quarter of 2019 was RMB 2.2 billion (US\$ 0.3 billion), compared with nil in the same period of 2018*
- *Total revenues in the second quarter of 2019 was RMB3,064.1 million (US\$446.3 million), compared with RMB3,255.6 million in the same period of 2018, primarily due to a decrease in revenues from sales of merchandise, which recognizes revenues on a gross basis, as the Company shifted part of merchandise sales to its marketplace platform, which recognizes revenues on a net basis.*

* * *

“We maintained a healthy growth rate in the second quarter, as we continued to optimize and upgrade our new marketplace business model. *We also adjusted our supplier agreements to improve our value proposition to members. As we continued to carefully select new brands and curate quality products at attractive prices that best match member demand, our membership base further expanded during the second quarter.* We are confident that our operational progress and membership expansion will help drive our future growth,” said Mr. Shanglue Xiao, Chairman and Chief Executive Officer of Yunji.

“Since we initiated our marketplace business in early 2019, we have been fine tuning its business model. We plan to improve its operating efficiency in the coming quarters by gradually increasing the commission rate we charge our merchant partners. We will also maintain a healthy level of working capital to meet the liquidity need in operation and commitment. By doing so, we are confident that we will be able to deliver sustainable shareholder return for the long haul,” said Mr. Chen Chen, Chief Financial Officer of Yunji.

* * *

Second Quarter 2019 Unaudited Financial Results

Total revenues was RMB3,064.1 million (US\$446.3 million), compared with RMB3,255.6 million in the same period of 2018, which was primarily due to a decrease in revenues from sales of merchandise as the Company shifted part of merchandise sales to its marketplace platform. The Company’s marketplace platform recognizes revenues on a net basis and contributes to marketplace revenues, while its merchandise sales platform recognizes revenues on a gross basis and contributes to sales of merchandise, net.

- *Revenues from sales of merchandise, net decreased by 8.7% to RMB2,731.6 million (US\$397.9 million) from RMB2,993.4 million in the same period of 2018, as part of merchandise sales shifted to the new marketplace platform, partially offset by positive revenue impact of the decrease of estimated refunds payable to members⁷.*
- Revenues from the membership program increased by 9.4% to RMB267.6 million (US\$39.0 million) from RMB244.5 million in the same period of 2018, as membership base continued to grow.
- *Revenues from the marketplace business was RMB53.0 million (US\$7.7 million), compared with nil in the same period of 2018, as the Company launched the marketplace platform in the first quarter of 2019.*
- Other revenues decreased by 32.9% to RMB11.9 million (US\$1.7 million) from RMB17.7 million in the same period of 2018.

Emphasis added in bold with italics.

76. In the financial statements presented in the 2Q2019 Press Release, Yunji reported total revenue of RMB3,064,050,000 which was RMB321,505,000 less than the RMB3,385,555,000 it reported for the first quarter 2019. Yunji also reported revenue from the sales of merchandise of RMB2,731,597,000 which was RMB488,578,000 less than the

RMB3,220,175,000 it reported for the first quarter 2019. The change in total revenue and revenue from the sales of merchandise equated to a 9.5% and 15.17% decrease, respectively, from the first quarter 2019.

77. Later that same day before market open, Yunji held an earnings conference call to discuss its second quarter 2019 results (“2Q2019 Conference Call”).

78. During the scripted portion of the 2Q2019 Conference Call, Chen explained that the continued trend of suppliers and sales moving to the Marketplace’s 3P model was reducing Yunji sales of merchandise revenue and Yunji’s total revenue. Specifically, Chen stated:

Our GMV increased by 46.4% year-over-year in the second quarter of 2019 to CNY 8.2 billion from CNY 5.6 billion in the same period of 2018. Our revenues in the second quarter of 2019 were CNY 3 billion compared with CNY 3.26 billion in the same period of 2018. Revenues from the net sales of merchandise was CNY 2.73 billion, accounting for 89.1% of our total revenues, and decreasing by 8.7% in the same period of 2018. ***The year-over-year decrease in our quarterly revenues was due to the increasing popularity of our marketplace business among merchants.***

Our marketplace business ***was launched in the first quarter of 2019, and in the second quarter generated a total of CNY 53 million in revenues, representing 1.9% of our total revenues.*** During the second quarter, we introduced more sales formats and that ***developed our marketplace business to meet the evolving demands of our members and users.*** Consequently, ***a portion of the revenues, which was previously generated from merchandise sales and recognized on gross basis, shifted to being generated from marketplace model and recognized on a net basis.***

Emphasis added.

79. During the question and answer portion of the 2Q2019 Conference Call, an analyst from Credit Suisse inquired about Yunji’s GMV growth rates and user metrics. In his response, Chen stated that Yunji forcibly eliminated 300 of its suppliers, a 22% reduction in the number of Yunji suppliers as of December 31, 2018, because their “quality” and “user satisfaction” did not meet Yunji’s “standard.” Chen further noted that the loss of these 300 suppliers would also impact Yunji’s revenue and profit. Specifically, Chen stated:

Ivy Liu Crédit Suisse AG, Research Division – Analyst

(foreign language) Ivy Liu on behalf of Tina. (foreign language) I'll quickly translate myself. So I have 2 questions here. First is on GMV. Will the sequential growth rate be higher than this quarter's 21%, given the seasonality in Q4, and will there be a spike? And second is, can management share some key user metrics, such as order frequency and engagement level in this quarter and going forward?

Chen Chen Yunji Inc. – CFO & Compliance Officer

Thank you. So I will take this question. So GMV, our competitive GMV increased the rate. Now we are more focused on the healthy member growth, and we are also focused on the user retention and the repurchase rate. So by doing that -- so first of all, we believe our GMV increase rates in both Q3 -- in Q3 will be a little bit higher than in Q2. And then in Q4, it will be further increased. And by doing that, we will enhance -- to achieve that goal, we will enhance our user retention and repurchase rates for members through a strategy of -- as we just mentioned that by increased - - by carefully curating products with price advantage to provide to our members and also by better developing private label products and exclusive products provided by brands and the factories and also by increasing the social interaction between our service managers with our members and users.

So our goal is to increase our member values which we see is a long-term goal. And in this quarter, as you can see, the GMV increased ratio is not higher than Q1. That is because in Q2, we think, as a membership-based social e-commerce company, quality is the first priority for us. *So in Q2, we eliminated around 300 brands out of Yunji in Q2 and the [1P] model. So these 300 brands, they can bring us revenue and also bring us profit. But due to the quality and the user satisfaction, it does not meet our standard. And so we eliminated them out.* So this -- we believe this will benefit us in the long run because we want to insist -- our target is to increase the value of our members. I think this is to your first question.

Emphasis added.

80. Later during the 2Q2019 Conference Call, a J.P. Morgan analyst asked about Yunji's supply chain restructuring as part of launching the Marketplace and Yunji shifting its merchandise sales from the 1P model to the 3P model. In response, Chen discussed that Yunji had already began to "shift" some of its brands from its 1P model to the 3P Marketplace in the second fiscal quarter 2019 (which was already one-third completed as of the time of the IPO). Chen further indicated that Yunji forcibly shifted 1P suppliers to the Marketplace as part of its launch. Specifically, Chen stated:

Andre Chang JP Morgan Chase & Co, Research Division – Analyst

(foreign language) So I will translate by myself. I have 2 questions for the management. First is about the supply chain restructuring. Management mentioned about the shift from the 1P model to [3P] model. I'd like to know whether most of the transition has been done or there will be more to come.

And also, management talking -- talked about the elimination of some less-good quality products. I'd like to know the process is done as well, or again, there will be some more impact in the second half. And for both issue, will that impact the margins in second half or not?....

Chen Chen Yunji Inc. – CFO & Compliance Officer

Okay. Thank you, Andre. *For your first questions, we started to shift to the 1P model, some brands under the 1P model to 3P model in Q2, and we believe we still need some time to complete the transition. And going forward, we think we will not force brands under this model to 3P model.*

Emphasis added.

81. Following the 2Q2019 Conference Call, J.P. Morgan issued its analyst report titled *Wait for uncertainties from business restructuring to settle; Downgrade to Neutral*. In its report, J.P. Morgan not only downgraded Yunji to “Neutral” but also reduced its price target from \$14.00 (Dec-19) to \$7.00 (Jun-20).

82. In its report, J.P. Morgan discussed the continued revenue declines as suppliers and sales trended to the Marketplace’s 3P model and as a result of Yunji cutting 300 suppliers due to “lower quality” products. J.P. Morgan noted that Yunji cut 300 suppliers despite the fact that certain of these suppliers’ products contributed “good sales” and revenues. Specifically, J.P. Morgan’s report stated:

We believe Yunji’s GMV/revenue growth will continue to face uncertainties in 2H19 after it reported disappointing YoY revenue decline in 2Q19, as the management is streamlining suppliers for better product offering, and adjusting the mix between 1P and 3P businesses, both of which are more aggressive than the management has indicated. Yunji’s growth potential beyond the short-term adjustment still exists given the stable increase of members, but there is no clear catalyst for share price upside during the transition period, in our view. We downgrade the stock to Neutral and lower Jun-20 PT to US\$7.

- ***Restructuring on suppliers affects near-term GMV/revenue. The company phased out 300 suppliers with lower quality, and the process will continue in 2H19 though with smaller impact.*** Yunji wants to enhance the platform's attractiveness to members by focusing on 3-5 suppliers in each category, so it can have better bargaining power or more exclusive product offering. It is also adjusting the marketplace business, which contributed 27% of GMV in 2Q19 from a negligible level in 1Q19. Some merchants which moved to marketplace may be redirected back to 1P model, and Yunji will revisit the take rate. 1P revenue dropped 9% YoY in 2Q19, but should resume growth in 2H19 by our forecast.

* * *

- Downgrade to Neutral with Jun-20 PT US\$7. Our PT is based on 18x 2020E P/E (from 24x), at 10% discount to the low-end of major ecommerce peers' range. ***Lower valuation reflects the slower growth, as we cut 2019/20E revenue by 17%/19%,*** while widened 2019E non-GAAP loss by 12%, and cut 2020E profit by 26%, to 22%/29% below consensus. The US\$20m share repurchase plan announced on August 28 should offer some near-term support to the share price.

* * *

We believe Yunji's GMV/revenue growth will continue to face uncertainties in 2H19 after it reported disappointing YoY revenue decline in 2Q19, as the management is streamlining suppliers for better product offering, and adjusting the mix between 1P and 3P businesses, both of which are more aggressive than the market expected earlier. Yunji's growth potential beyond the short-term adjustment still exists given the healthy increase of members, but there is no clear catalyst for share price upside during the transition period, in our view.

Our Jun20 PT of US\$7 is based on 18x 2020E non-GAAP P/E, at 10% discount to the low-end high-growth China ecommerce peers' valuation range, given the more uncertain growth outlook now.

* * *

Rising uncertainties after 2Q19 result

Yunji reported 2Q19 result on August 22, and posted unexpected 6% YoY revenue decline. GMV grew 46% YoY (vs. 94% in 1Q19), but if we exclude RMB 2.2b from marketplace, which contributed very little in 1Q19, 1P and consignment GMV grew only 7% YoY. The sharp acceleration of growth led Yunji's share price to drop nearly 40% in one week, while Alibaba and MSCI China dropped 4%/2% respectively during the same period.

The management attributed the slowdown to two reasons:

1) The company phased out 300 suppliers with lower quality, as it wants to enhance the platform's attractiveness to members by focusing on 3-5 suppliers in each category, so it can have better bargaining power or more exclusive product offering. However, some of these eliminated products enjoyed good sales, and it's hard for the service managers/buyers to find other products to promote/buy immediately.

2) More than expected merchants chose to shift from 1P to 3P marketplace model to enjoy attractive take rate at the initial stage, leading marketplace business to contribute 27% of GMV in 2Q19 from a negligible level in 1Q19. As 1P revenue is recognized on gross basis while 3P revenue is on net basis, the revenue booking will be lower even if the GMV amount is the same as long as 3P exposure is higher.

* * *

Revenue declined 6%YoY/9%QoQ to RMB 3,064, much worse than 53% YoY in 1Q19. The slowdown was driven by sales of merchandise (-9%YoY/-15%QoQ, 89% of total revenue, as some of 1P sales were shifted to 3P) and membership revenue (+10%YoY/+/70%QoQ, 9% of total revenue). The bright spot is the marketplace revenue, which increased from nothing before this quarter to RMB 53m (2% of total revenue). 1H19 revenue of RMB 6,450m has hit just 33%/25% of JPMe/consensus estimate for 2019.

GMV grew 46%YoY/21%QoQ to RMB 8.2b, slower than 94% YoY in 1Q19. The increase was purely driven by marketplace GMV, which reached RMB 2.2b in 2Q19, leaving 1P GMV at RMB 6b only, up only 7%YoY. Transacting members maintained stable growth, with 1.1m addition sequentially to 8.2m, while cumulative members added 1.8mQoQ to 10.8m, on track toward JPMe of 10m transacting members and 14m cumulative members by the end of 2019.

Earnings revision

We cut 2019/20E revenue by 17%/19% to reflect the slower GMV/revenue growth on the back of the business restructuring. We keep gross margins largely stable, while lowered 2019/20E non-GAAP operating margin by 0.5ppts, leading non-GAAP net margin to -1%/2.9% respectively, reflecting the deleveraging effect from smaller revenue size.

Emphasis in bold with italics.

iii. Yunji Reports its Third Quarter 2019 Results

83. On December 2, 2019, Yunji announced its third quarter 2019 financial results for the period ended September 30, 2019 via a press release that was also filed as a Form 6-K with the SEC (“3Q2019 Press Release”).

84. In the 3Q2019 Press Release, Yunji announced that GMV continued to increase while total revenue during the quarter declined to RMB2,773.1 million. The 3Q2019 Press Release noted that despite growing GMV during the third quarter, revenue was lower than the “same period of 2018, which was primarily due to a decrease in revenues from sales of merchandise as the Company shifted a portion of its merchandise sales to its marketplace business platform.”

85. Specifically, the 3Q2019 Press Release stated:

Yunji Announces Third Quarter 2019 Unaudited Financial Results

Hangzhou, CHINA, December 2, 2019 — Yunji Inc. (“Yunji” or the “Company”) (NASDAQ: YJ), a leading membership-based social e-commerce platform, today announced its unaudited financial results for the third quarter ended September 30, 2019¹.

Third Quarter 2019 Highlights

- *GMV in the third quarter of 2019 increased by 69.8% year over year to RMB9.2 billion (US\$1.3 billion) from RMB5.4 billion in the same period of 2018 due to the Company’s broadening of product categories and focus on platform operations since the launch of its marketplace business model. GMV related to marketplace revenues was RMB3.2 billion (US\$ 0.5 billion) in the third quarter of 2019, compared with nil in the same period of 2018.*
- *Total revenues in the third quarter of 2019 were RMB2,773.1 million (US\$388.0 million), compared with RMB3,084.0 million in the same period of 2018, primarily due to a decrease in revenues from sales of merchandise, which recognizes revenues on a gross basis, as the Company shifted a portion of its merchandise sales to its marketplace business platform, which recognizes revenues on a net basis.*

* * *

Mr. Shanglue Xiao, Chairman and Chief Executive Officer of Yunji, said, “We are pleased to report solid results for the third quarter of 2019. During the period, we continued to focus on curating products for our platform, carefully crafting and adhering to our criteria for each product segment. We were also successful in further advancing our merchandise sales and marketplace business models, both of which have significantly enhanced our core value proposition. For our marketplace business model, we further augmented our supply chain diversity by partnering with more well-known brands. Meanwhile, for our merchandise sales platform, our cooperation with emerging brands and incubation of private labels continued to make good progress as we further empowered these merchants to develop more high-quality and attractive products for members. Going forward, we are confident that these measures will underpin our continuing growth and path to profitability.” *“During the third quarter, we focused on stimulating platform engagement and honing our operational efficiency by shifting merchandise sales model to marketplace business model. ...”* said Mr. Chen Chen, Chief Financial Officer of Yunji.

Third Quarter 2019 Unaudited Financial Results

Total revenues were RMB2,773.1 million (US\$388.0 million), compared with RMB3,084.0 million in the same period of 2018, which was primarily due to a decrease in revenues from sales of merchandise as the Company shifted a portion of its merchandise sales to its marketplace business platform. Revenues generated on the marketplace business platform were recognized on a net basis and contributed to marketplace revenues, while revenues generated on the merchandise sales platform were recognized on a gross basis and contributed to sales of merchandise, net.

- *Revenues from sales of merchandise, net decreased by 14.0% to RMB2,472.0 million (US\$345.8 million) from RMB2,875.7 million in the same period of 2018. The decrease was due to a portion of merchandise sales shifted to the Company’s marketplace business platform as the Company continued to refine its resource allocation plan to further improve the operational efficiencies of its merchandise sales platform, marketplace business platform, and platform merchants.*
- Revenues from the membership program increased by 16.3% to RMB206.7 million (US\$28.9 million) from RMB177.8 million in the same period of 2018, as the Company’s membership base continued to grow.
- *Revenues from the marketplace business were RMB86.3 million (US\$12.1 million), compared with nil in the same period of 2018, as the Company launched its marketplace business platform in the first quarter of 2019, which continued to grow and improve its commission rate in the third quarter of 2019.*

- Other revenues decreased by 73.7% to RMB8.0 million (US\$1.1 million) from RMB30.6 million in the same period of 2018.

Emphasis added in bold with italics.

86. In the financial statements presented in the 3Q2019 Press Release, Yunji reported total revenue of RMB2,773,065,000 which was RMB290,985,000 less than the RMB3,064,050,000 it reported for the second quarter 2019. Yunji also reported revenue from the sales of merchandise of RMB2,471,967,000 RMB which was RMB259,630,000 less than the RMB2,731,597,000 it reported for the second quarter 2019. The change in total revenue and revenue from the sales of merchandise equated to a 9.5% and 9.5% decrease, respectively, from the second quarter 2019.

87. Later that same day before market open, Yunji held an earnings conference call to discuss its third quarter 2019 results (“3Q2019 Conference Call”).

88. During the scripted portion of the 3Q2019 Conference Call, Xiao again acknowledged that Yunji began in the first quarter 2019 (which ended over one month before the IPO) to optimize its “operational structure” and shift its business from the 1P merchandise sales model to the 3P Marketplace model. Specifically, Xiao stated:

Now let me share with you our second competitive strategy: building on foundation of our dual business model encompassing both marketplace business and merchandise sales, our competitive differentiation can be summarized into 2 words: inclusiveness and focus.

First, allow me to explain “inclusiveness” in more details. ***In the first quarter of 2019, we have started to gradually optimize our operational structure and shift part of our business from merchandise sales to marketplace business model. In the light of the general public’s past misperception and disfavor of our business model shift,*** I would like to take this opportunity to explain from the operational efficiency perspective the myriad benefits of our dual business models that include both merchandise sales and marketplace business.

Emphasis added.

89. During the scripted portion of the 3Q2019 Conference Call, Chen reinforced that Yunji's revenues were again negatively impacted as a result of the trend of suppliers and sales shifting from Yunji's 1P model to the 3P Marketplace. Specifically, Chen stated:

Chen Chen Yunji Inc. – CFO

Thank you, Shanglue. Hello, everyone. Before I go through our financial results with you, please note that all numbers stated in the following remarks are in RMB terms, and our percentage changes are on a year-over-year basis unless otherwise noted.

During the third quarter of 2019, our GMV increased by 69.8% to CNY 9.2 billion, and our total revenue were *CNY 2.77 billion compared with CNY 3.08 billion in the same period of 2018. Since its launch in the first quarter of 2019, our marketplace business platform has attracted a growing number of merchants interested in tagging to our massive user group. Additionally, some merchants from our merchandise sales platform have decided to move on to our marketplace business platform and therefore, have taken responsibility for the procurement, storage, and management of their own inventory. As a result of this transfer, a portion of our revenues previously generated on our merchandise sales platform and recognized on a gross basis was shifted to our marketplace business platform, which recognizes sales on a net basis.*

In the third quarter of 2019, revenues from net sales of merchandise were CNY 2.47 billion, accounting for 89.1% of our total revenue. As we continue to attract a more popular brands to our marketplace business platform and improve our commission rate, revenues from our marketplace business were CNY 86.3 million compared with nil in the same period of 2018.

During this quarter, as we continue to enhance our merchandising mix, refine our value proposition and engage more users through our diversified membership enrollment system, revenues from our membership program increased by 16.3% to CNY 206.7 million. *Meanwhile, as some merchants move to our marketplace business platform, a portion of our product purchasing and storage activities was shifted back to the merchants, which reduced our costs related to activities such as inventory write-downs and merchandise procurement.*

Emphasis added.

90. During the question and answer portion of the 3Q2019 Conference Call, an analyst from Credit Suisse inquired about Yunji's plan for the Marketplace's contribution to GMV when Yunji stabilized it in 2020. In his response, Chen discussed that the intention was to balance the

1P and 3P models at a 50/50 contribution rate to GMV. Specifically, Chen stated “*we hope we can balance the 1P and the 3P business in the 50 to 50 in 2020.*” Emphasis added.

91. Following the 3Q2019 Conference Call, J.P. Morgan issued its analyst report titled *Ongoing business transition points to slower growth with better profitability; Stay Neutral*. In its report, J.P. Morgan maintained its “Neutral” rating and \$7.00 (Jun-20) price target and explicitly stated that Yunji had a “declining revenue trend YoY . . . as the company is still shifting more GMV from 1P model to marketplace (3P).” J.P. Morgan further concluded that Yunji’s revenue still “hasn’t hit the bottom as shift from 1P to 3P continues.” J.P. Morgan stated in its report:

We believe it’s too early to bargain-hunt on Yunji: its declining revenue trend YoY is not over yet, as the company is still shifting more GMV from 1P model to marketplace (3P), a process we expect to be concluded in 1H20. It is difficult for investors to project normalized growth and profitability during the transition. However, we also think the path to profit has become clearer on the lighter business model and higher-margin product mix, with breakeven maybe coming earlier by 4Q19. We expect Yunji’s valuation to benchmark Vipshop’s (VIPS, OW) on a similar strategy to focus on profit with stable growth. Current 2020 JPMe P/E of 11x is fair until it can demonstrate strong reacceleration of growth. Stay Neutral with a new Dec-20 PT of US\$4.5.

Revenue hasn’t hit the bottom as shift from 1P to 3P continues. 3Q19 revenue declined another 10% YoY (following -6% YoY in 2Q19), dragged by 14% YoY drop of 1P sales, despite GMV growing 70% YoY to RMB 9.2b (vs +46% YoY in 2Q19). We estimate 3P contributed over 1/3 of total GMV in 3Q19 vs 27% in 2Q19. Management highlighted in the post-results call that 3P GMV may reach 50% in 2020, as its 1P business will only focus on top SKUs with high quality/margins (in our view, private label/emerging brand products) and has continued to eliminate lower-quality suppliers. We forecast 4Q19 revenue will still drop 8% YoY, before returning to 16% YoY growth in 2020, and gross profit will also maintain the YoY declining trend in 4Q19 (-4% YoY vs -5% in 3Q19).

* * *

Revenue declined 10%YoY/9%QoQ to RMB 2,773, worse than 6% YoY drop in 2Q19. The continuous weakness was driven by sales of merchandise (-14%YoY, 89% of total revenue). Membership revenue (7% of total) remained lackluster, with +16%YoY/%. The bright spot remained marketplace revenue, which increased 62% QoQ to RMB 86m (3% of total revenue).

GMV grew 70%YoY/12%QoQ to RMB 9.2b in 3Q19, rebounding from 46% YoY in 2Q19. The company didn't disclose the breakdown this quarter, but we estimate the increase was still driven by marketplace GMV, which should contribute over 1/3 of total GMV in 3Q19 (vs 27% in 2Q19). Transacting members maintained stable growth, with 1.2m additions sequentially to 9.4m, while cumulative members added 1.5m QoQ to 12.3m, on track towards JPMe of 10m transacting members and 14m cumulative members by the end of 2019.

Emphasis added with bold and italics.

II. FALSE STATEMENTS AND OMISSIONS IN THE REGISTRATION STATEMENT

A. Description of Yunji's Marketplace Business Segment

92. In describing Yunji's business, the Registration Statement thoroughly discussed Yunji's 1P business model of selling merchandise from its suppliers directly to its customers. The *Business* section of the Registration Statement, however, contained only two limited statements concerning Yunji's Marketplace:

- a. In the subsection discussing "Our Strategies," the Registration Statement stated:

In addition to our existing sales formats, we aim to further invest in other sales formats, such as our supermarket sales format. We believe this can further improve the shopping experience and help attract and retain more members and users. *By leveraging our large user base and power of social networks, we have launched the marketplace business model since the first quarter of 2019, allowing third-party merchants to sell their products on our platform to our members and users.*

- b. In the "Sales Format" subsection discussing the three sales formats by which Yunji offers products (flash sale, supermarket, and boutique sales), the Registration Statement did not claim or state that the Marketplace was its own sales format:

Boutique virtual shops 专柜. We sell products of selected brands also through virtual shops dedicated to the respective brands on our platform. Through these boutique virtual shops, our members can purchase branded products without the quantity and time limit of the flash sale format. This sales format is a new initiative to meet demand of our existing members and attract new members.

To complement our existing direct sales business model, we have launched a marketplace business since the first quarter of 2019 whereby third-party merchants can sell products on our platform and pay us commissions on their sales. We believe this can help further expand our product offerings, improve the shopping experience, and attract and retain more members and users.”

Emphasis added.

93. The remainder of the Registration Statement only included one additional statement concerning the Marketplace. In a risk factor discussing “third-party online payment service providers,” the Registration Statement stated:

We have launched the marketplace business model since the first quarter of 2019, and will continue to work with third-party online payment service providers to support the new initiatives. We cannot assure you that the PBOC or other governmental authorities will find our cooperation model with third-party online payment service providers with respect to the marketplace business model to be in compliance with the PBOC Notice. If required by the PBOC or other relevant governmental authorities in the future, we may need to adjust or suspend our cooperation model with third-party payment service providers, and be subject to fines and other sanctions.

94. Statements within the Registration Statement represented that Yunji’s business and business model was predominately a 1P merchandise sales model and that this would be the predominant business model for the foreseeable future. Specifically, when discussing revenues, the Registration Statement stated:

Revenues generated from sales of most products on our platform are recorded as revenues from sale of merchandise, net of discounts, coupons, referral incentives provided to members, return allowances and VAT. We acquire products from suppliers and sell them to users. We expect revenue generated from sale of merchandise will continue to account for a majority of our total revenues.

95. Notably, the financial information contained in the Registration Statement evidenced Yunji’s strong revenue and growth from its 1P model with its merchandise sales growing from RMB699,262,000 in the first quarter 2017 to RMB4,465,857,000 in the fourth quarter 2018.

96. Furthermore, the Registration Statement, repeatedly represented that Yunji's business was that of a seller of merchandise it acquired from suppliers:

We primarily sell merchandise through its Yunji Apps. We present the revenue generated from its sales of merchandise on a gross basis as we have control of the goods and has the ability to direct the use of goods to obtain substantially all the benefits.

* * *

We source products from third-party suppliers for our online platform. We had 1,369 suppliers as of December 31, 2018. Our suppliers include merchants of mainstream brands and emerging brands, and manufacturing partners we cooperate with. Maintaining strong relationships with these suppliers is important to the growth of our business. In particular, we depend significantly on our ability to procure products from suppliers on favorable pricing terms. We typically enter into one-year framework agreements with our suppliers on an annual basis, and these framework agreements do not ensure the availability of products or the continuation of particular pricing practices or payment terms beyond the end of the contractual term. In addition, our agreements with suppliers typically do not restrict the suppliers from selling products to others. We cannot assure you that our current suppliers will continue to sell products to us on commercially acceptable terms, or at all, after the term of the current agreement expires. Even if we maintain good relations with our suppliers, their ability to supply products to us in sufficient quantity and at competitive prices may be adversely affected by economic conditions, labor actions, regulatory or legal decisions, natural disasters or other causes.

97. In stark contrast to the detailed description of Yunji's 1P model, the Registration Statement failed to provide any significant or material discussion of the 3P model or the Marketplace. In fact, the Registration Statement provided no indication of the current or future significance of the Marketplace to Yunji or its overall business model. Moreover, the Registration Statement lacked any description as to how the Marketplace would function beyond allowing third-parties to sell their products on Yunji's platform in exchange for paying a commission on sales (*i.e.* the criteria for selecting and/or permitting goods and merchandisers to be offered on the Marketplace, how Yunji would position and promote the Marketplace relative to its traditional 1P model, etc.).

98. Item 101 (a) of Regulation S-K requires that a registrant “[d]escribe the general development of the business registrant...during the past five years” and “[i]n describing developments, information shall be given as to matters such as . . . any material changes in the mode of conducting business.” 17 C.F.R. §229.101(a)

99. Furthermore, Item 101(c)(1) of Regulation S-K requires that a registrant provide a detailed description of the material aspects of registrant’s business including the “business done and intended to done” and “to the extent material to an understanding of the registrant’s business taken as a whole, the description of each such segment shall include the information specified in paragraphs (c)(1)(i) through (x) of this section.” 17 C.F.R. §229.101(c)(1). Subsection (i) requires a description of “[t]he principal products produced and services rendered by the registrant in the segment and the principal markets for, and methods of distribution of, the segment’s principal products and services.” 17 C.F.R. §229.101(c)(1)(i). Subsection (ii) further requires “[a] description of the status of a product or segment . . . if there has been a public announcement of, or if the registrant otherwise has made public information about, a new product or segment that would require the investment of a material amount of the assets of the registrant or that otherwise is material.” 17 C.F.R. §229.101(c)(1)(ii).

100. In determining which information is required to be disclosed under Item 101(c), the instructions to Item 101 state:

In determining what information about the segments is material to an understanding of the registrant's business taken as a whole and therefore required to be disclosed, pursuant to paragraph (c) of this Item, the registrant should take into account both quantitative and qualitative factors such as the significance of the matter to the registrant (e.g., whether a matter with a relatively minor impact on the registrant's business is represented by management to be important to its future profitability), the pervasiveness of the matter (e.g., whether it affects or may affect numerous items in the segment information), and the impact of the matter (e.g., whether it distorts the trends reflected in the segment information). Situations may arise when information should be disclosed about a

segment, although the information in quantitative terms may not appear significant to the registrant's business taken as a whole.

Emphasis added.

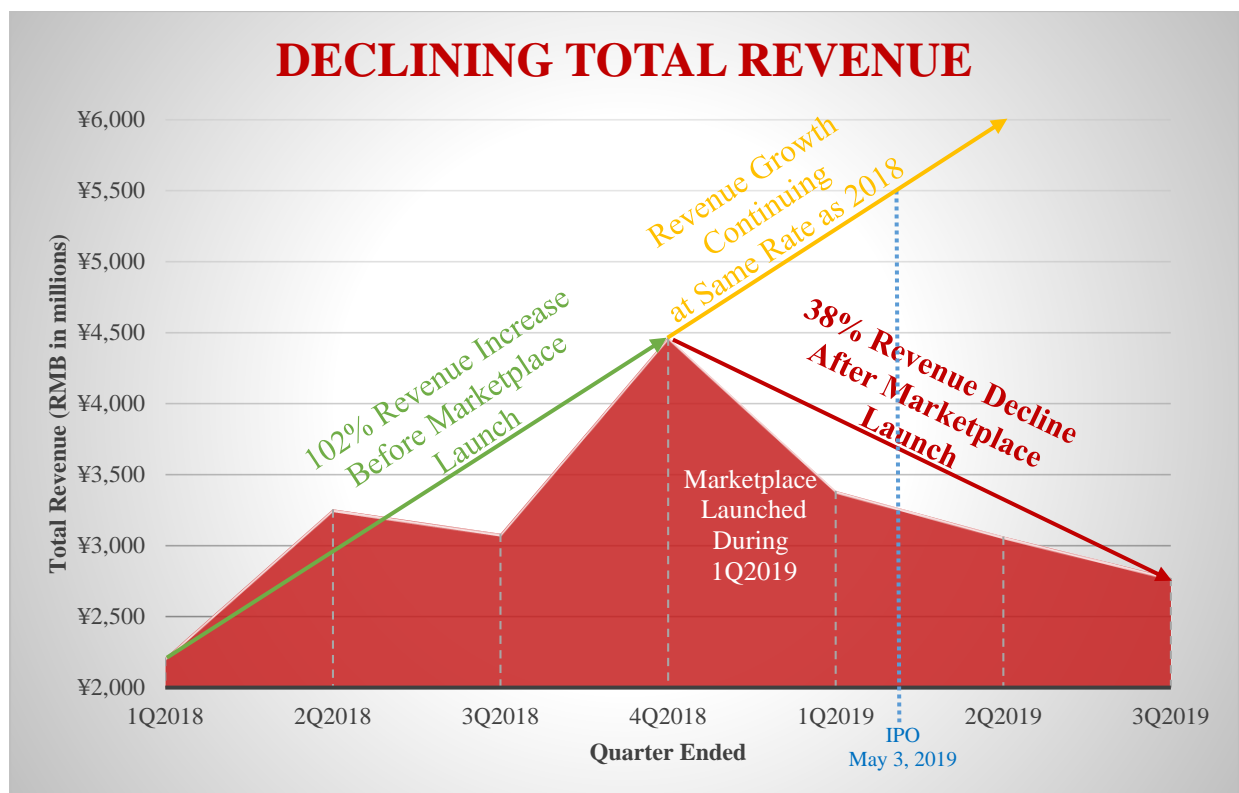
101. In violation of the Item 101's disclosure requirements, the Registration Statement failed to disclose that: (i) the Marketplace was a material change in the mode of conducting business as the Marketplace was a fundamental change to Yunji's overall business model; (ii) Yunji had promoted the Marketplace during the first quarter and that it shifted and would continue to shift suppliers, products and their corresponding sales from its historical and almost pure 1P business model to make the Marketplace 3P model a material part of Yunji's business; (iii) the Marketplace was already of material importance to Yunji's historically sole operating segment, because as later disclosed, based on the first quarter 2019 and Yunji's promotion of the Marketplace during the quarter, that Yunji expected that the Marketplace would contribute 30% of GMV in 2019 and hoped that the Marketplace would contribute 50% of Yunji's total GMV in 2020, or alternatively, that the Marketplace was so material that it was in fact its own operating segment; and/or (iv) failed to provide the requisite description of the Marketplace as a new product/service that was material to Yunji's business.

B. The Negative Impact on Yunji's Revenue Caused by the Shift of Sales from the 1P Model to the Marketplace Business Segment

102. At the time of the IPO, Yunji had promoted and experienced a shift of its merchandise sales to the Marketplace and was continuing to support this shift. This, in turn, had already materially and negatively impacted Yunji's revenue and would continue to negatively impact Yunji's revenue following the IPO.

103. Upon its launch in the first quarter 2019, Yunji began to promote the Marketplace and shift sales from its 1P model to the Marketplace. As a result of causing this shift to begin in

the first quarter of 2019 by launching and promoting the Marketplace, total revenue for the quarter fell by 24.19% from the fourth quarter 2018. As the shift continued, Yunji's total revenue continued to fall by 9.5% quarter over quarter in the second and third quarters 2019. As a result of the shift in sales to the Marketplace, by the end of the third quarter 2019 Yunji's total revenue fell 37.9% from the fourth quarter 2018 to the third quarter of 2019. Yunji's declining revenue caused by the trend in sales shifting from the 1P model to the Marketplace is evident from the following chart:



104. The Registration Statement did not describe that Yunji had and was continuing to experience a shift of its sales to the company's Marketplace and the manner in which this shift had and was reasonably expected to materially impact the company's revenue.

105. Item 303 of Regulation S-K, requires, in pertinent part, that a registrant "describe any known trends or uncertainties that have had or that the registrant reasonably expects will have

a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.” 17 C.F.R. § 229.303(a)(3)(ii). “A disclosure duty exists where a trend, demand, commitment, event or uncertainty is both (1) presently known to management and (2) reasonably likely to have material effects on the registrant’s financial condition or results of operation.” Management’s Discussion and Analysis of Financial Condition, Securities Act Release No. 6835 (May 18, 1989), Fed. Sec. L. Rep. (CCH) Par. 72,436, at 62,143, reprinted at Par. 73,193, at 62,842.

106. The instruction for Item 303(a)(3) provides that this “discussion and analysis shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition. This would include descriptions and amounts of (A) matters that would have an impact on future operations and have not had an impact in the past, and (B) matters that have had an impact on reported operations and are not expected to have an impact upon future operations.”

107. By failing to make these required disclosures, the Registration Statement violated Regulation S-K and Section 7(a)(1) of the Securities Act.

C. Product Suppliers Were Below Internal Quality Standards

108. In the Registration Statement, Yunji stated that it believes that it “is crucial” for it to “carefully select the suppliers with high-quality product offerings” so that it can offer “carefully curated” products. Throughout the Registration Statement the “high quality” and “careful curation” of Yunji’s products was repeatedly represented.

109. Specifically, the Registration Statement stated that Yunji:

- a. “*had 1,369 suppliers as of December 31, 2018*” which implied that these suppliers provided Yunji with “high-quality” products that were “carefully curated” by Yunji;
- b. “*offer[s] high-quality products* at attractive prices and incentivize our members to promote our platform and share our products with their social contacts”;
- c. has a “flagship Yunji app is used by our members and non-member users to discover, explore and purchase a wide range of *high-quality products* at attractive prices and to access other membership features and benefits”;
- d. “offer[s] broad coverage of product categories to cater to the various daily needs of our users and their households, but *provide carefully curated items within each category to meet the preferences of our users*”;
- e. “pioneered a unique membership-based social e-commerce model, offering *a curated selection of high-quality products* at attractive prices”;
- f. “*offer[s] a carefully curated selection of quality products* at attractive prices on our platform to help fulfill the various daily needs of our users and their households based on our understanding of their preferences”;
- g. “offers a selection of *high-quality products* covering a broad range of categories at attractive prices through its e-commerce platform”;
- h. Within each product category, *we offer carefully curated items meeting the preferences of our users* with attractive pricing”; and
- i. has a “*carefully curated product selection.*”

Emphasis added.

110. The above statements emphasized in paragraph 109 were untrue because, as of May 3, 2019, 300 of Yunji's 1,369 suppliers were in fact not providing "high-quality product offerings" and did not meet the "careful[] curat[ion]" standards maintained by Yunji internally, as confirmed by Chen during the 2Q2019 Conference Call. Accordingly, although Yunji stated that its items were "high-quality" and "carefully curated," approximately 22% of Yunji's suppliers were supplying goods that did not meet Yunji's "standard" for "quality" and "user satisfaction."

CLASS ACTION ALLEGATIONS

111. Plaintiff brings this action on behalf of all persons who purchased and/or otherwise acquired Yunji ordinary shares of stock in the form of ADSs pursuant or traceable to the Registration Statement filed in connection with the IPO (the "Class"). The Class excludes Yunji, the Individual Defendants, and each of their immediate family members, legal representatives, heirs, successors or assigns, and any entity in which they have or had a controlling interest, and the Underwriter Defendants.

112. The Class members are so numerous that joinder of all members is impracticable. The number of Yunji ADS that were registered and sold pursuant to and/or traceable to the Registration Statement was 11,217,447. Following the IPO, Yunji's ADSs were actively traded on the Nasdaq Global Market. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are thousands if not tens of thousands of Class members. Record owners and other Class members may be identified from records maintained by Yunji, the ADS depository, or Yunji's transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

113. Plaintiff's claims are typical of the claims of the Class members as all Class members were similarly affected by the Defendants' wrongful conduct in violation of the federal

securities laws complained of herein. Plaintiff purchased and/or acquired Yunji ADSs pursuant to or traceable to the Registration Statement. The manner in which Plaintiff's sustained damages in connection with each security that they held was similar, if not identical, to other Class members who purchased or acquired Yunji ADSs.

114. Plaintiff has and will continue to fairly and adequately protect the interests of the Class members.

115. Plaintiff has retained counsel competent and experienced in class and securities litigation.

116. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

117. Common questions of law and fact exist as to all Class members and predominate over any questions solely affecting individual Class members. Among the questions of law and fact common to the Class are:

- (a) whether the Registration Statement contained untrue statements of material fact or omitted to state a material fact necessary to make the statements therein not misleading;
- (b) whether the Registration Statement omitted to state a material fact required to be stated therein; and
- (c) whether the Class members have sustained damages and, if so, what is the proper measure of damages.

118. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden

of individual litigation make it impossible for Class members to individually redress the wrongs done to them.

119. There will be no difficulty in the management of this action as a class action.

COUNT I: VIOLATIONS OF SECTION 11 OF THE SECURITIES ACT AGAINST ALL DEFENDANTS

120. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

121. This claim is brought against all Defendants on behalf of Plaintiff and other members of the Class persons who purchased and/or otherwise acquired Yunji ordinary shares of stock in the form of ADSs pursuant or traceable to the Registration Statement filed in connection with the IPO (and the documents incorporated therein or dependent upon), and were damaged by the acts alleged herein.

122. As part of the IPO through the Registration Statement, Yunji registered and offered up to the aggregate of 12,650,000 ADSs, and sold to investors approximately 11,217,447 of these ADSs in the IPO. Yunji was the issuer of the ADSs pursuant to the Registration Statement within the meaning of Section 11 of the Securities Act.

123. The Individual Defendants each signed the Registration Statement.

124. Yunji ADSs were issued and sold pursuant to the Registration Statement (and the documents incorporated by reference thereto). All purchases or acquisitions of Yunji ADSs by investors were a result of the issuance of the Registration Statement and the ordinary shares and ADSs registered thereunder. As a result thereof, each ADS sold to investors by Yunji at the time of the closing of the IPO is traceable to the Registration Statement.

125. The Registration Statement contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary to make the statements

therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the Registration Statement.

126. As the issuer and registrant of the ordinary shares and the ADSs, Yunji is strictly liable for any untrue statements of a material fact or omissions to state a material fact required to be stated therein or necessary to make the statements therein not misleading contained in the Registration Statement. None of the Individual Defendants or the Underwriter Defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were accurate and complete in all material respects.

127. Plaintiff and the members of the Class purchased and/or otherwise acquired Yunji ordinary shares of stock in the form of ADSs pursuant or traceable to the Registration Statement and were damaged thereby as the price of the Yunji ADSs have declined following the IPO from \$11.00 to \$4.27.

128. Plaintiff and the members of the Class did not know, nor in the exercise of reasonable diligence could they have known, of the untrue statements of material facts or omissions of a material fact required to be stated therein or necessary to make the statements therein not misleading in the Registration Statement when they purchased or acquired their Yunji ADSs.

129. This claim is brought within one year after the discovery of the untrue statements and omissions and within three years after the issuance of the Registration Statement.

130. By reason of the foregoing, Yunji, the Individual Defendants, and the Underwriter Defendants are liable to Plaintiff and the members of the Class pursuant to Section 11 of the Securities Act.

**COUNT II: VIOLATIONS OF SECTION 15 OF THE SECURITIES ACT AGAINST
THE INDIVIDUAL DEFENDANTS**

131. Plaintiff repeats and realleges each and every as if fully set forth herein.

132. This claim is brought pursuant to Section 15 of the Securities Act against the Individual Defendants on behalf of Plaintiff and the other members of the Class persons who purchased and/or otherwise acquired Yunji ordinary shares of stock in the form of ADSs pursuant or traceable to the Registration Statement filed in connection with the IPO and were damaged by the acts alleged herein.

133. As alleged herein, Yunji and the Individual Defendants violated the Securities Act by issuing the Registration Statement which included materially untrue statements of fact and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading.

134. The Individual Defendants were controlling persons of Yunji when the Registration Statement was filed and became effective due to their senior executive positions, their positions on Yunji's Board, their direct involvement in Yunji's day-to-day operations; and their participation in, and preparation of, the Registration Statement, including the Prospectus.

135. By virtue of their exercise of control over Yunji, the Individual Defendants had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of Yunji, including the content of Yunji's Registration Statement, including the Prospectus.

136. The Individual Defendants did not make a reasonable investigation or possess reasonable grounds for the belief that the Registration Statement was accurate and complete in compliance with the requirements of the Securities Act.

137. This claim is brought within one year after the discovery of the untrue statements and omissions, and within three years after the sale of Yunji's ADSs to Plaintiff.

138. By reason of the foregoing, the Individual Defendants are liable to Plaintiff and the members of the Class for violations of Section 15 of the Securities Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays that the Court enter judgment on their behalf and on behalf of the Classes herein, adjudging and decreeing that:

A. This action may proceed as a class action, with Plaintiff as the designated Class representatives and Plaintiff's counsel designated as Class Counsel;

B. Plaintiff and the members of the Class recover damages sustained by them, as provided by law, and that a judgment in favor of Plaintiff be entered against the Defendants, jointly and severally, in an amount permitted pursuant to such law;

C. Plaintiff and members of the Class be awarded pre-judgment and post-judgment interest, and that such interest be awarded at the highest legal rate from and after the date of service of the initial complaint in this action;

D. Plaintiff and members of the Class recover their costs of this suit, including reasonable attorneys' fees as provided by law; and

E. Plaintiff and members of the Class receive such other and further relief as may be just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: March 19, 2019

Respectfully submitted,

LEVI & KORSINSKY, LLP

s/ Adam M. Apton
Nicholas I. Porritt
Adam M. Apton
55 Broadway, 10th Floor
New York, New York 10006
Telephone: (212) 363-7500
Facsimile: (212) 363-7171
Email: nporritt@zlk.com
Email: aapton@zlk.com

Alexander A. Krot III
1101 30th Street, NW
Suite 115
Washington, D.C. 20007
Telephone: (202) 524-4290
Facsimile: (212) 363-7171
Email: akrot@zlk.com
(*pro hac vice* to be submitted)

*Attorneys for Lead Plaintiff Shaji Mathew
and Lead Counsel for the Class*